New year, old debt? How to cut those credit balances and get ahead of higher rates

During the holidays, spending on gifts, travel and more can run up your credit card debt. With January right around the corner, those bills are coming due sooner rather than later.

The holidays show how Americans are once again relying more on their credit cards. The average household has $16,061 in credit card debt, just below the high water mark of $16,911 set in 2008, according to personal finance site NerdWallet.

"Debt is a big problem for many Americans, " NerdWallet's Sean McQuay told CNBC's "On The Money" in an interview, obligations he said many try to ignore. "It's shameful, no one wants to talk about that, no one wants to admit to themselves that they're in that bucket. "

So how do you reduce your credit card debt?

"Make sure you're paying your minimums and try to pay more than the minimums," said McQuay, who's NerdWallet's Credit and Banking Expert. He added you should also "set aside any bonus money or tax refunds" to whittle down those balances.

While it seems counter intuitive, McQuay suggests a strategy of taking on more credit with a new credit card—which could help you to pay down the debt you have now.

"If you're lucky enough to qualify for one of those balance transfer cards, it can be a great option," McQuay said. "Those cards allow you to postpone interest payments for that debt for 12 to 21 months, which can really create a lot of breathing room to help pay that (debt) down," he added.

Individual terms and rates vary, but while you can defer your interest on that debt for months, many new cards require a balance transfer fee of about 3 percent.

But that is lower than the average credit card interest rate, which is currently 18.76 percent, according to NerdWallet. Yet because of the Federal Reserve's decision to raise rates, the cost of credit to consumers is rising and could rise even higher.

McQuay says for the everyday American who has credit card debt, the Fed's move "means their debt just increased in cost by .25 percent."

Although that increment "isn't a lot, that's only $2.50 for every $1,000 dollars in debt. But this adds up."

With the Fed expected to being a campaign to hike rates in the coming years, "we expect the credit card interest rates to likewise be going up." That means anyone looking to reduce their credit card debt must also spend less.

"They need to cut expenses. That can be cutting gym memberships they're not using. Cutting cable bills they don't watch anymore," he added.

McQuay suggested looking for other recurring monthly charges on your credit cards that you could reduce or eliminate.

"Those are really easy steps every American can take to cut expenses," the analyst said.

http://finance.yahoo.com/news/old-debt-cut-those-credit-150000357.html